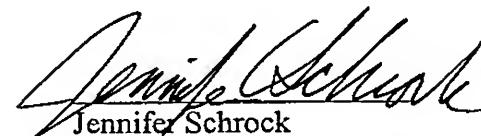


SUPPLEMENT
BETWEEN THE
DEPARTMENT OF DEFENSE
OF THE UNITED STATES OF AMERICA
AND THE
MINISTRY OF DEFENCE OF THE
REPUBLIC OF ITALY
UNDER THE MEMORANDUM OF UNDERSTANDING
CONCERNING THE COOPERATIVE FRAMEWORK FOR
SYSTEM DEVELOPMENT AND DEMONSTRATION OF THE
JOINT STRIKE FIGHTER

Certified to be a true copy:



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INTRODUCTION

The Department of Defense of the United States of America (U.S. DoD) and the Ministry of Defence of the Republic of Italy (IT MOD), hereinafter referred to as the "Participants":

Recognizing that this Supplement is subject to the Memorandum of Understanding among the Minister of National Defence of Canada, the Ministry of Defence of Denmark, the Ministry of Defence of the Republic of Italy, the State Secretary of Defence of the Kingdom of the Netherlands, the Ministry of Defence of the Kingdom of Norway, the Secretary of State for Defence of the United Kingdom of Great Britain and Northern Ireland, and the Secretary of Defense on behalf of the Department of Defense of the United States of America concerning the Cooperative Framework for System Development and Demonstration of the Joint Strike Fighter (JSF SDD Framework MOU) and any amendments thereto;

Having regard to the needs of the U.S. Air Force and U.S. Marine Corps and the needs of the Italian Navy and Air Force for a next generation strike fighter;

Recognizing the contributions that the IT MOD has made to the Joint Strike Fighter Program in the Concept Demonstration Phase pursuant to the Agreement for the Joint Strike Fighter (JSF) Short Take-Off and Vertical Landing Ship Integration Risk Mitigation and Conventional Take-Off and Landing (CTOL)/Short Take-Off and Vertical Landing (STOVL) Operational Assessment Project of 23 December 1998 between the Department of Defense of the United States of America and the Ministry of Defence of the Republic of Italy, as amended;

Desiring to extend their JSF cooperation into the System Development and Demonstration (SDD) Phase with a view to subsequent cooperation in JSF developmental upgrades, production, and support; and

Desiring the involvement of their industries and research and development organizations in the JSF Program, and recognizing that this Project will enable the Participants to inform those entities of potential JSF Program participation opportunities;

Have reached the following understandings:

SECTION I

DEFINITIONS OF TERMS AND ABBREVIATIONS

The Participants have jointly decided upon the following definitions for terms used in this Supplement.

Defense Purposes

Manufacture or other use in any part of the world by or for the armed forces of a Participant.

IT MOD JSF Purposes

Performance of Project activities pursuant to the JSF SDD Framework MOU and this Supplement and future efforts by the IT MOD (collaboratively, nationally, or under U.S. Foreign Military Sales arrangements) for the design, development, manufacture, operation and support of CTOL and STOVL variants of the Air System. Efforts for the operation and support of the JSF CTOL and STOVL variants include, but are not limited to, the following activities related to these variants: aircraft carrier design, land air base design, communications, national and inter-allied operations and logistic support, and modification of IT MOD weapons to enable their integration into these variants.

Italian JSF Cooperative Project Personnel

IT MOD military members or civilian employees assigned to the JSF Program Office or U.S. DoD field activities who perform managerial, engineering, technical, administrative, Contracting, logistics, financial, planning or other functions in furtherance of the Project.

SECTION II

OBJECTIVES AND SCOPE

- 2.1. The objective of this Supplement is to establish the detailed provisions concerning the responsibilities and benefits of the Participants under the Project in accordance with the JSF SDD Framework MOU.
- 2.2. The Participants intend to promote industrial and technological cooperation between the United States and Italy during the JSF SDD Phase.
- 2.3. The Participants acknowledge that it is an objective of the JSF Program Office to maximize commonality among the JSF variants.
- 2.4. During the JSF SDD Phase, the Participants will design, develop, and qualify the JSF Air System which completely fulfills the joint Operational Requirements Document (ORD) dated 13 March 2000. This Air System will be fully operational, supportable and maintainable as specified in the joint ORD.
- 2.5. The U.S. DoD will consult with the IT MOD on any changes to the joint ORD that increase the joint ORD requirements and also increase the costs of the Project. If the IT MOD objects to such changes, there will be no increase to their share of the Financial Costs of the Project as a result of such changes.
- 2.6. The JSF Air System design will allow for in-country reprogramming capability as specified in the joint ORD and Joint Model Specification (JMS), and as implemented in the Contract Specification.
- 2.7. In light of the importance of the Contract Specification to the Project work, the IT MOD will participate in the change control and approval process for that specification.
- 2.8. The JSF Program threshold and objective requirement for Unit Recurring Flyaway Cost is contained in the joint ORD, paragraph 4.1.1. The current JSF Program Office estimate (October 2001) of the CTOL Unit Recurring Flyaway Cost is \$33.1 million (U.S. fiscal year 1994 base year dollars).
- 2.9. The U.S. DoD and IT MOD intend to pursue future cooperation in JSF developmental upgrades (during and after

the SDD Phase), production, and support under separate arrangements.

2.10. The U.S. DoD will use its best efforts to provide the IT MOD with the opportunity to obtain equipment and systems produced under U.S. DoD programs other than the JSF Program, to the extent that such equipment and systems are needed to meet the JSF Air System performance requirements specified in the joint ORD and further detailed in the JMS. Upon agreement between the Participants, such equipment and systems may be used by Italian industries on behalf of the IT MOD.

SECTION III

MANAGEMENT (ORGANIZATION AND RESPONSIBILITY)

3.1. The JSF Program Director (PD), in fulfilling his primary responsibility for management of the Project in accordance with paragraph 4.1 of the JSF SDD Framework MOU, will be responsible for satisfying the objectives and scope described in paragraphs 2.2 through 2.6 of Section II (Objectives and Scope) of this Supplement. The IT MOD EC representative will participate with the JSF PD in the latter's JSF Program management responsibilities as to Project efforts valued in an amount not to exceed \$65 million Then Year U.S. dollars of the Project contributions identified in paragraph 4.1 of this Supplement. Subject to the JSF PD's written approval, the following will apply: the IT MOD EC representative will, on behalf of the IT MOD, determine the Project efforts to which these Project funds are allocated; and the IT MOD may, if it so determines, contract with, or otherwise make arrangements with, Italian industry or Italian governmental entities, in accordance with Italian national Contracting laws, regulations and procedures, for performance of these Project efforts.

3.2. The JSF PD will promptly bring to the attention of the IT MOD Executive Committee (EC) representative any Air System deviations from the requirements of the joint ORD that arise in the performance of the work under this Project, and will advise the IT MOD EC representative of the planned course of action. If such deviations significantly reduce Air System performance or functionality as specified in the joint ORD of 13 March 2000, the JSF PD will seek advice from the EC as to what action should be taken.

3.3. The JSF SDD Framework MOU established the EC and provided that the U.S. DoD EC representative will be the JSF Program Director (or successor in the event of reorganization). The IT MOD EC representative will be the Chief of the Fourth Department of the National Armaments Directorate of the Ministry of Defence of Italy (or successor in the event of reorganization).

3.4. The JSF SDD Framework MOU also provided for plenary EC meetings. The U.S. DoD and the IT MOD EC representatives will hold semi-annual U.S. DoD-IT MOD-only meetings, if necessary, to address issues of concern to the Supplement; additional meetings will be held at the request of either representative, when appropriate, giving one month's notice to the other. The Participant hosting the Supplement-specific EC meeting will chair the meeting, unless otherwise

mutually determined. In addition to the Supplement-specific EC responsibilities contained in paragraph 4.5 of the JSF SDD Framework MOU, the following EC responsibilities under this Supplement will require unanimous decisions:

3.4.1. Approving the U.S. DoD-IT MOD JSF Program Office Integrated Project Team (IPT) Personnel Description Document (PDD).

3.4.2. Amending Annex A (Supplement Management Structure).

3.4.3. Authorizing changes to the Financial Management Procedures Document (FMPD).

3.5. The U.S. DoD and IT MOD EC representatives will also promptly apprise and consult on any matters that affect the Supplement and resolve any issues brought forth by the Director, JSF International Directorate (JSF/ID) and the IT MOD National Deputy.

3.6. In addition to the responsibilities related to the Supplement described in paragraph 4.7 of the JSF SDD Framework MOU, the Director, JSF/ID, will be responsible for:

3.6.1. Preparing, in conjunction with the IT MOD National Deputy, a U.S. DoD/IT MOD JSF Program Office IPT PDD for the approval of the U.S. DoD and IT MOD EC members.

3.6.2. Referring to the U.S. DoD and IT MOD EC members issues related to the Supplement that the Director, JSF/ID cannot resolve.

3.6.3. Accountability to the U.S. DoD and IT MOD EC members for timely release of Project Information furnished by the U.S. DoD.

3.7. The IT MOD will provide a National Deputy and a supporting staff in accordance with Annex A, who will be assigned to IPTs within the JSF Program Office and U.S. DoD field activities. Specific IT MOD National Deputy responsibilities are identified in Section 3.8 below. Specific IPT responsibilities for IT MOD personnel will be identified in the U.S. DoD/IT MOD JSF Program Office IPT PDD. Additionally, Annex B (JSF Cooperative Project Personnel) establishes provisions for the general conduct of IT MOD personnel located in the JSF Program Office and U.S. DoD field activities. Annex A (Supplement Management

Structure) depicts the management structure established for this Supplement.

3.8. In addition to assigned IPT responsibilities, the IT MOD National Deputy will be responsible for:

3.8.1. Supporting the Director, JSF/ID in the day-to-day administrative management of both the JSF SDD Framework MOU and this Supplement, to include oversight of the IT MOD assigned staff.

3.8.2. Providing day-to-day MOD representation within the JSF Program Office on all matters related to the Project.

3.8.3. Assisting the JSF/ID in developing the FMPD, Project Security Instruction and Classification Guide, and IPT PDD.

3.9. Representatives from the Participants' operational communities will participate in the JSF Senior Warfighter Group.

SECTION IV
FINANCIAL PROVISIONS

4.1. The IT MOD share of the Financial Costs of the Project, identified in paragraph 5.2 of Section V (Financial Provisions) of the JSF SDD Framework MOU, is \$1.028 billion TY U.S. Dollars. In no event will this IT MOD share, which is the IT MOD's maximum contribution to the Project, be increased without an amendment to this Supplement. The IT MOD non-financial contribution includes the personnel assigned to the JSF Program Office and DoD field activities in accordance with Annex A (Supplement Management Structure). The U.S. DoD share of the Financial Cost Target is established in Section V (Financial Provisions) of the JSF SDD Framework MOU.

4.2. An estimated financial schedule for IT MOD contributions (including the \$65 million Then Year U.S. Dollars specified in paragraph 3.1 of Section III (Management (Organization and Responsibility)) of this Supplement), which will also be contained in the FMPD, is provided in Table 4-1. The U.S. DoD and IT MOD EC representatives may approve changes to the estimated financial schedule, depicted in Table 4-1, by authorizing changes to the FMPD:

TABLE 4-1

Calendar Year (CY)	IT MOD contribution (billions U.S. TY \$)
CY01	-0-
CY02	.085
CY03	.104
CY04	.126
CY05	.152
CY06	.171
CY07	.154
CY08	.098
CY09	.068
CY10	.041
CY11	.027
CY12	.002
TOTAL	1.028

4.3. U.S. DoD research and development costs incurred for the Air System will not apply to any Air Systems that may be exported to the IT MOD pursuant to U.S. commercial export licenses in accordance with any future cooperative production arrangements. Alternatively, on any form of future procurement by the Italian Government of the Air System from the U.S. government, the U.S. DoD will exclude from the price of the Air System all of the U.S. DoD research and development costs incurred for the Air System, provided that the IT MOD does not withdraw from the JSF SDD Framework MOU and this Supplement. In the case of IT MOD withdrawal, the financial contribution made by the IT MOD up to the date of withdrawal will be taken into consideration regarding any such future foreign military sale.

4.4. In regard to paragraph 5.9 of the JSF SDD Framework MOU, the JSF PD will advise the IT MOD EC representative in a timely manner of any damages and costs that may accrue from the performance of or cancellation of Contracts or other obligations for this Project.

4.5. The FMPD will comply with U.S. and Italian audit laws and regulations. In furtherance of the provisions of paragraph 5.11 of Section V (Financial Provisions) of the JSF SDD Framework MOU, and upon mutual agreement, the IT MOD auditors may assist the U.S. DoD on any audit elements required to satisfactorily perform the audit. In addition, in the event that the IT MOD auditors need to obtain or to inspect specific Project financial data in order to fulfill their national obligations, the U.S. DoD will arrange for access to such specific financial data at mutually agreed times and locations.

SECTION V
CONTRACTING PROVISIONS

5.1. The Participants recognize that the provisions of the Memorandum of Understanding between the Government of the United States of America and the Government of Italy Concerning the Principles Governing Mutual Co-operation in Research and Development, Production, and Procurement of Defense Equipment of 11 September 1978, as amended, establish the principle that full consideration will be given to all qualified sources in each other's country consistent with the national procurement policy and criteria.

5.2. The U.S. DoD will provide the IT MOD with timely insight into the subcontracting for the Project. The Director, JSF/ID, will, upon request, provide to the IT MOD EC representative a summary of the activity of the Italian industries participating in the JSF SDD Phase.

5.3. The U.S. DoD will award cost-plus-award-fee Contracts for performance of the JSF SDD Phase. The JSF PD will implement an award fee program that specifies the award fee criteria against which the prime Contractors will be measured. Periodically, in consultation with the IT MOD National Deputy as part of the JSF Program Office award fee process, the JSF PD will award an appropriate portion of the available fee to the prime Contractors based on the degree to which their performance meets the award fee criteria. In the event a Contractor fails to meet any of the award fee criteria in a given period, the JSF PD will ensure the award fee will be reduced to the appropriate level.

SECTION VI
JOINTLY ACQUIRED EQUIPMENT

6.1. In those instances in which the U.S. DoD elects to dispose of Jointly Acquired Equipment by transferring such equipment to another Participant in accordance with paragraph 7.6 of the JSF SDD Framework MOU, the U.S. DoD will offer that equipment to each of the Participants of the JSF SDD Framework MOU in order of the magnitude of their financial contributions to the Project. The U.S. DoD will consult with the IT MOD and the other JSF SDD Framework MOU Participants in order to achieve a distribution of this Jointly Acquired Equipment in proportion to the Participants' financial contributions.